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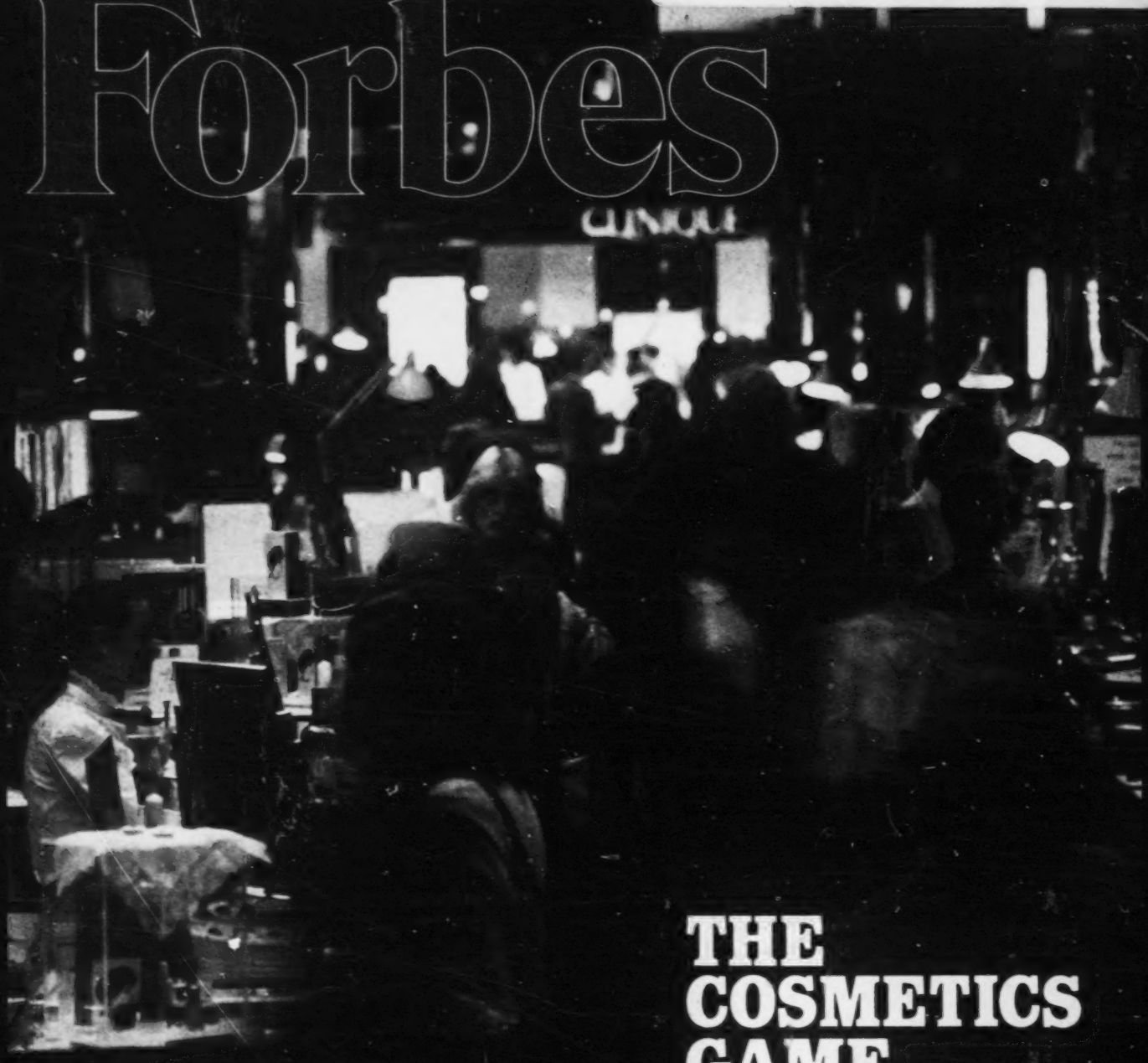

THE COSMETICS GAME TODAY

"IF CHARLES REVSON WERE ALIVE, HE'D BE SPINNING IN HIS GRAVE."

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JOSEPH MCNALLY IRIP
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October 25, 1982
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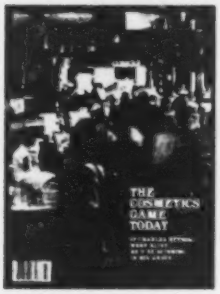

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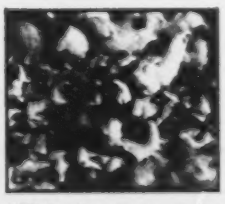

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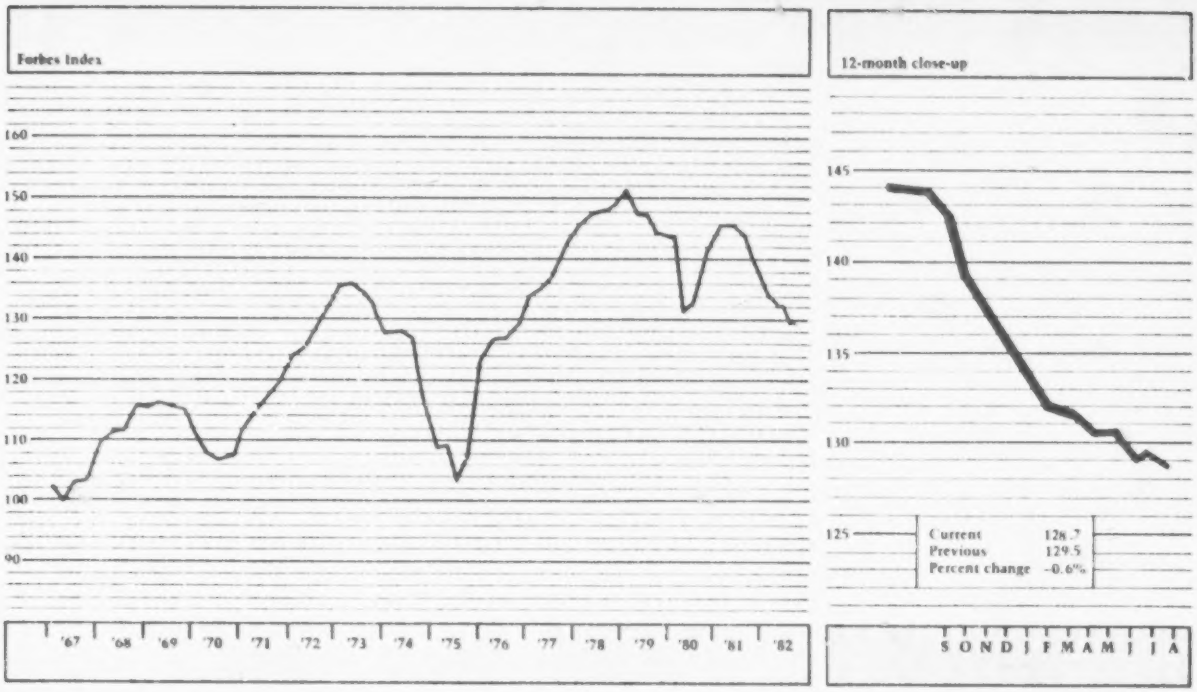
The Forbes Index



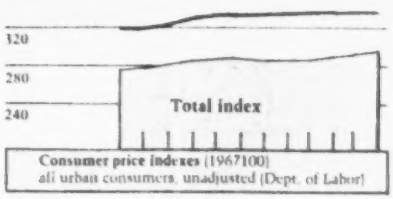
More erosion. For the second time in a row, the Forbes Index has fallen into the negative column. The main depressant was unemployment claims, which jumped 18.2%. More bad news came from manufacturers' new orders, which fell 2.5% in August. That decline hits especially hard because it follows a 6% gain in July.

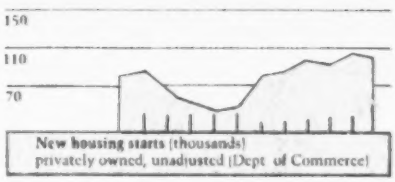
Further evidence that the recession is not over comes from inventories, which fell 0.2% during the latest reporting period and are still being cut back. Personal income, though in the plus column, rose by a meager 0.2%. There is, however, a bright note on the inflation front. The Consumer Price Index posted a 0.2% gain, well below July's 0.6% increase. Prices for the services component, by contrast, rose at a 0.6% rate.

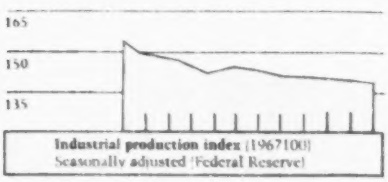
The Forbes Index Components

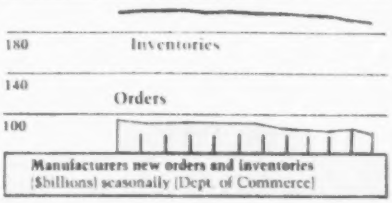
The Forbes index is a measure of U.S. economic activity composed of eight equally weighted elements. **Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.**

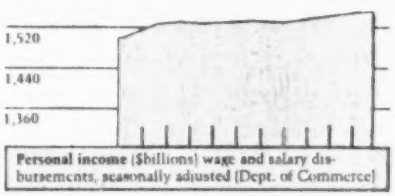
To measure these eight elements, Forbes monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.

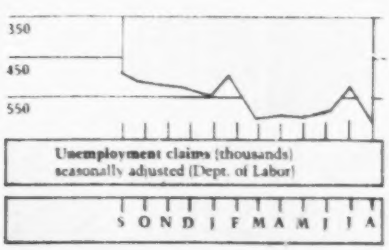


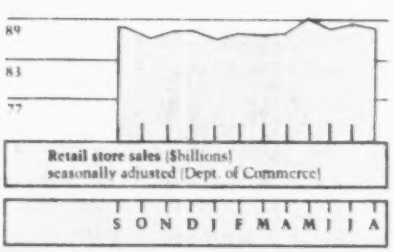


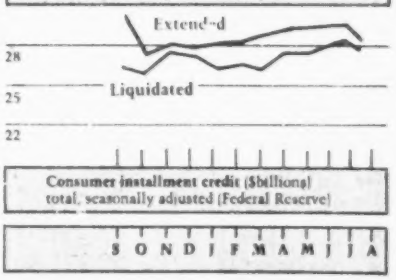












Even Egyptian capitalists shun the word "capitalism." They prefer "freer markets," and Egypt is striving, at some risk, to accommodate it. More than the fate of Egypt alone is at stake. A progress report.

Fulcrum

By Jerry Flint and Yassin El-Ayouty

ON THE ROOFTOP of a private Cairo club, the wealthy Egyptian sipped his scotch. "We used to have three servants. Now I can't get anyone. We even tried to get people just for the day. I offer five pounds [$5] a day. Nobody. This is terrible."

In the suburbs, a writer says: "When I started building my house three years ago my plumber was riding a motorcycle. Today he's got a Mercedes. Even the youngsters carrying buckets of cement are getting $3 or $4 a day."

Mubarak

Such complaints of labor shortage are good news in a country growing by 1 million every ten months and in a world where richer states, from Mexico to Poland, stagger through insolvency and stagnation. Yes, Egypt has its problems, but it is no basket case. If its leaders can accelerate the move toward "freer markets"—even Egyptian capitalists shun the word *capitalism*—Egypt will walk erect into the 21st century rather than be carried in.

"We're not going back to socialism," vows Mostapha El-Said, the minister of economy. It is 1 a.m. in the lobby of the Cairo Hilton; the ex-professor, in his black leisure suit, is tired but spends a few hours with FORBES. "The economy is now the number one question. We're no longer neglecting reforms because of war. As [President Hosni] Mubarak says, the challenge is internal."

America's stake in Egyptian prosperity is huge. The events in Lebanon are tragic, but if Egypt keeps the peace there can be no major war between Arabs and Israel. No other Arab state, nor any combination of them, is powerful enough to battle Israel. Allied with the U.S., Egypt helps keep a lid on an area running from the Mediterranean into central Africa. "If not for Egypt, the Sudan [under Libyan pressure] would have collapsed," says Wajih Zikri, an editor of Cairo's *Al-Akhbar*, the biggest newspaper in the Mideast. The U.S. agrees and pumps $2 billion a year into Egypt, half civilian aid [our biggest aid program], half military support.

But this nation of 44 million is nobody's lackey; it can set the pattern for much of the Third World. It has before. Remember Nasser? He helped create the nonaligned movement a quarter-century ago that pulled newly freed states away from the West, then embraced the Russians, giving them access to Africa and the Arab states. "The best news America ever heard from this part of the world was when Sadat kicked them out," says Ahmed El-Gindi, another key *Al-Akhbar* editor. "They still hurt from that and are trying to get back in."

Egypt exemplifies all the problems of Third World countries.

- Population pressures. Though at 386,000 square miles the equivalent of California, New Mexico and Colorado—it is a crowded nation, with almost all its 44 million people living in the 15,000 square miles along the Nile and its delta.
- Lagging agriculture. At the turn of the century, Egypt—then with a population of 10 million—was farming 4.8 million acres; 80 years later the population has quadrupled but the arable land has increased only 25%.
- Underemployment. Industry strains to keep up with the number of young people seeking jobs—there are now 400,000 new entrants to Egypt's 12 million-person labor force each year. Soon there will be 500,000 a year.

In addition to problems, Egypt has resources many another developing nation would envy. Egypt's oil—it produces about 635,000 barrels a day—earned $2.8 billion last year. The Suez Canal brought in $890 million. Tourism—based on the pyramids, the wonders of Luxor and 6,000 years of history—earned $800 million. And it has skilled citizens abroad—perhaps 3 million Egyptians working mostly in Arab lands as doctors and teachers, carpenters and farmers—who remit earnings to the home country: between $2 billion and $3 billion last year. Egypt's debt is high but not out of hand. Egypt's foreign debt is $13 billion, but most of it is concessional foreign assistance from Western governments and the World Bank, and the foreign debt service ratio is about 20% of export earnings. For Mexico, with $68 billion in private bank loans alone, debt service is 58% of export earnings; for Argentina it is 78%.

But like other Third World leaders, President Hosni Mubarak is in a perilous race against time. Egypt's progress since the end of the 1973 war against Israel has quickened expectations, not quieted them.

Improvement has been real. Per capita income is up 50%, to $560, in four years. Egyptians are eating more chicken, meat, eggs, vegetables. Public transportation is better (buses in Cairo are jammed but no one rides the roof anymore). In the villages brick houses are replacing huts. Even the phones work better.

But Egyptians expected much more, much faster, and it is easy to overlook the gains when the ever-growing population squeezes housing, when sewers overflow into the streets, as they sometimes do, and when the wealthy spend thousands of dollars on well-publicized parties.

How stable is Egypt a year after the assassination of Anwar Sadat? Any tourist in Cairo can see sandbags in place and manned in front of the state television station and truckloads of armed soldiers parked on side streets, waiting. Egypt is no ideal democracy, but with its parliament and open political criticism, it is no military dictatorship, either. Government operates by a kind of consensus—of the army, of the elite, of the street.

Militant Muslims killed Sadat, but few Egyptians think that Islamic fundamentalism can topple the Cairo

Egyptian farming: The techniques and tools aren't much different from Pharaoh's days
"We're subsidizing the American farmer," complains Minister Youssef Wally, "not the Egyptian farmer."

government. "How many women do you see wearing the veil?" asks one Cairene. Practically none, it is true. "There's the call to prayer. How many are going?" sneers another.

But a better answer to the threat of fundamentalism, to all of Egypt's problems, is economic progress. Years ago Egypt took the path of "Arab socialism" under Gamal Abdel Nasser, who seized and distributed farmland to poor peasants, nationalized business and industry. In the end, his wars with Israel left no money to finance economic growth. Anwar Sadat, having reclaimed Egypt's dignity in the 1973 war with Israel, cautiously took the nation along a new economic path. Old Cairo joke: Sadat comes to a crossroads. The chauffeur asks him which way to turn. "Which way did President Nasser go?" Sadat asks. "Left, your excellency," says the driver. "Then signal left and turn right!"

Sadat called his rightward turn *el-infitah*, the opening. It was a policy to lure foreign investment and loans to rebuild the economy by promising currency convertibility, repatriation of profits, tax exemptions and favorable customs treatment. "The open door policy changed the business climate," says one astute American businessman working in Egypt. "The most important change was it made the local entrepreneurs feel safer to invest in their own country. They figured if Sadat gets Western companies to come in, they were safe, too."

Infitah was clearly a factor as the Egyptian economy grew 8% to 10% a year from the mid-1970s on, including 10% GNP growth last year after inflation.

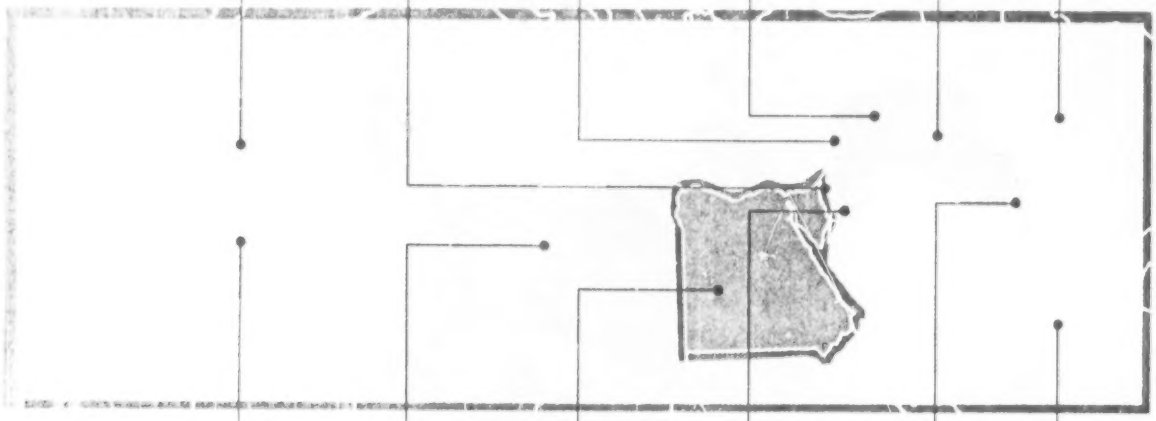
But some of the fresh money was of limited help—misplaced showers in a desert. "No more soft drink companies," says Economic Minister El-Said to a visitor who had seen Pepsi, Coke, Teem and Canada Dry everywhere. "We want cement, bricks, agro-industries. And no more banks in Egypt. We have 76 already."

It is easier, politically, for Egypt to discipline foreigners than to discipline itself. Imports soared to $9 billion last year, against $4 billion in exports. The inflation rate is pushing 20%. The government masks the inflation with subsidies on the prices of basic commodities like bread (about a penny for a pita-like round) and gasoline (about 60 cents a gallon). The subsidies, in turn, increase the budget deficit, estimated at about $5 billion—20% of GNP—in the current fiscal year. At the same time, oil prices have dropped, tourism is slumping, Suez Canal profits climb

Role model

Across the sweep of desert that marks the Middle East, only Egypt has the attributes that make for leadership: history, stability, population, military force. Her political and economic influence is felt not only in Arab lands but into central Africa. Without Egypt, the Qaddafis and Khomeinis are constant threats.

	MOROCCO	ISRAEL	LEBANON	SYRIA	IRAQ	IRAN
Population (millions)	21.3	4.0	3.0	9.4	14.0	41.2
GDP (billions)	$16.0	$20.0	$2.6	$12.9	$39.5	$81.7
GDP per capita	$800	$5,000	$884	$960	$3,020	$2,170
Life expectancy at birth (years)	55.4	72.0	65.0	57.0	56.1	54.0
Literacy rate	20%	90%	75%	53%	70%	48%
Armed Forces	120,000	172,000*	23,750	222,500	252,250	195,000



	ALGERIA	LIBYA	EGYPT	JORDAN	KUWAIT	SAUDI ARABIA
Population (millions)	20.0	3.4	44.0	2.2	1.4	8.0†
GDP (billions)	$41.0	$24.5	$25.0	$2.9	$27.2	$125.1
GDP per capita	$1,720	$6,960	$560	$1,312	$19,818	$14,250
Life expectancy at birth (years)	55.0	53.0	55.0	57.0	68.0	45.0
Literacy rate	46%	35%	40%	71%	80%	45%
Armed Forces	101,000	55,000	367,000	67,500	12,400	51,700

*Mobilization up to 400,000 in 24 hours †Includes non-Saudi workers *Source:* State Department, Commerce Department, World Bank, Military Balance (1981-82)

less than expected, and Egyptians working abroad—perhaps a little nervous—keep some of their gold out of official channels. Egypt had been counting on these to fund vast—some would say grandiose—development schemes: cities and farms in the desert to save Cairo and Alexandria from strangulation and to produce more food; tens of billions of dollars for nuclear power plants, billions more for sewers and housing.

Struggling to move its economy forward against these odds, the Mubarak government has put agriculture high on its agenda. Half of Egypt's work force is involved in it, but half of Egypt's food is imported. While the economy was growing 8% to 10% a year, food production grew 2% to 3% at best.

Youssef Wally, minister of agriculture, outlines the problems to FORBES. Low prices paid to farmers for crops like wheat and rice, to subsidize the better-off city folk, destroy production incentives and push up imports. "We're subsidizing the American farmer, not the Egyptian farmer," he says bitterly, because his government pays more for imported grain than it pays its own farmers. Farm profits are so low that vital Nile valley topsoil is sold for bricks; $50,000 for an acre's

worth. Homes, offices, factories chew up more land. Some 950,000 acres of irrigated land have been added by the Aswan Dam and reclamation, an enormous effort although much of this land isn't yet productive; but subtract 750,000 acres of land gone to those other nonfarm uses.

What has to be done? Wally and others say paying farmers fair market prices for key crops would produce the incentive. As an example, output of vegetables, which aren't price-controlled at the farmgate, have soared. "With existing off-the-shelf technology, better seed, fertilizer, you could increase output 50% to 70%," says an American Embassy expert. Minister Wally says 50% to 100% production increases are possible.

The agenda on the industrial front is tougher. Three-fourths of industry is government-run, the heritage of Nasser's Arab socialism, and horror stories abound. The cigarette company never produces enough, which triggers fighting at the stores when the 35-cents-a-pack government smokes arrive. The Helwan national steel company had 26 divisions, each with its own full-scale bureaucracy.

The government promises every college-educated Egyptian a job, and piles them into offices with little to do but complicate the ministries and public companies. Such employees aren't paid much—in fact, they may be one group that lost power and influence under "open door" economics—but they can't be fired, either. Many hold two jobs to make ends meet. Others demand "lubrication"—petty graft—for any effort.

Indeed, some Americans say corruption is pervasive. The U.S. Justice Department is currently investigating a contract to move U.S. arms to Egypt under which an Egyptian—with reputed connections to the foreign minister, defense minister and the president—collected $51 million from the U.S. to ship $300 million in weapons.

"I've spent five hours a day for five years on the Israeli problem," Egypt's secretary of state says. "It doesn't deserve the time."

But corruption, troublesome as it is, is not the deciding factor in Egypt's economic future. First must be the commitment to an even wider open door, freer markets and even denationalization—remember, most manufacturers with more than 50 employees were nationalized. President Mubarak and other Egyptians pledge allegiance to the open door, but American officials believe they really haven't decided if they want a market or state-controlled economy, which is why they have trouble making decisions.

Egyptians also seem divided between the visionary and the practical: the visionary talk of building satellite cities, farms in the desert, colonizing the spacious Sudan; the practical talk of curbing imports and ending food and fuel subsidies.

Egypt needs it all—practical moves, from curbing budget deficits and creating incentives for production, and visionary efforts to reclaim the lands near the Nile and the sea.

Most of all it needs peace. Lebanon shook the mood of peace. Boutros Boutros-Ghali, secretary of state for foreign affairs, says the treaty with Israel still holds despite the trauma of Lebanon. "But the effort to build peace in the whole region is gone," he says. "We are back to square one." Boutros-Ghali is tired of it. "I've spent five hours a day for five years on this [Israel] problem," he tells FORBES in a near-midnight meeting in his office. "It doesn't deserve the time." It's building the economy, he says, that deserves full time and effort. Egypt has started in that direction. If it can persevere, it just might light the way for others in the troubled Middle East. ■

Kodak has a new camera, but this time the independent photofinishers can find no reason to say cheese and smile.

Somber development

By Anne Eugamery

FIRST, THE GOOD NEWS: Kodak's new disc camera, which arrived in stores with much fanfare in May, is expected to give photofinishers a lot more film to process in the next three years. Now the bad news: A new kind of photoprocessing minilab, equipped in part by Kodak, is expected to darken prospects for such retail photofinishers as Fox-Stanley Photo Products, Inc. and already troubled Fotomat Corp.

Fox-Stanley Photo Products President Carl Newton III
Not a pretty picture.

Who finishes first?

To keep up in a slow-growth business, photofinishers have had to broaden distribution (Fox) or get into other businesses (PCA, instant portraits). Even so, giant Kodak still wins by a mile.

Company	Fiscal 1981 sales (million)	—Net income— (million) 1981	1980	Earnings per share (most recent four quarters)	—Price— recent	1981-82 high
Berkey Photo	$ 182	d $0.6*	$1.7*	d$0.04	4	5¼
Fotomat	257	2.8	0.7	d0.13	3	8
Fox-Stanley	165	5.5	6.2	1.41	12⅛	13¼
Eastman Kodak	10,337	1,239.0	1,154.0	6.99	83	87¼
PCA Intl	178	5.6	4.5	0.36	5¼	16¼

*Before results of discontinued operations. d: deficit.

Those two companies, together constituting 15% of the $2.5 billion photofinishing market, were the pioneers of kiosks—the bright booths in shopping-center parking lots where the shutterbug dropped off film one day and got pictures back the next. Fotomat's 3,400 yellow-and-blue kiosks and Fox Photo's 900 red-and-yellow ones were supposed to be to photofinishing what McDonald's is to hamburgers. But they never generated the volume that spells high profits. After a decade of trying to get traffic density, Fox' average outlet is gathering 37 rolls of 20-exposure film a day, at $6 per roll. For that, Fox pays one or two clerks to stand and wait most of the time. A fleet of cars to take the film to and from processing centers is more overhead. Fortunately, San Antonio-based Fox, at $165 million (sales) the third-largest independent photofinisher behind Fotomat and wholesaler Berkey Photo, has more than kiosks: over 200 retail outlets, a 6,000-store dealer network and a linkup with Hallmark stores. That mix helped it eke out an 11.5% return on equity in the fiscal year ended Mar. 31. Fotomat, by contrast, had a return on equity of less than 1%, and Berkey's was a negative 1.8%.

But minilabs may well strengthen the traditional outlets for photofinishing—camera shops and drugstores—even though the minilab service costs around $10 a roll. Minilabs are bigger than kiosks, and more expensive to set up—averaging $200,000, vs. $15,000 a kiosk. But the tremendous differential in capital investment is seen—so far at least—as worthwhile because of the promise of volume business. With their $125,000 Japanese-made developing machines and Kodak printers, minilabs can process up to 400 rolls a day, on site, within one hour of receiving the film from the customer. Pictures are developed while the customer is doing other shopping. Since 1979 some 1,500 minilabs have opened, many tucked into the back of drugstores, and have taken as much as 4% of the market—$100 million. Analysts predict another 1,000 will open next year.

The minilabs are appearing just in time for Kodak's first new camera for the masses since the 110 in 1972. Photo volume usually surges in the two or three years following a Kodak product introduction, and photofinishers count on those boom years to carry them through the six or seven lean ones. With minilabs expected to take up to 20% of the market by 1985, the party is spoiled considerably. That's why analysts like Ty Govatos

of Donaldson, Lufkin & Jenrette, who got excited about photofinishing stocks in the past, are quieter now. "It's very painful for me," says Govatos. "I get a shot at these guys once every ten years or so, and I love to recommend stocks. But because of the minilabs, I just can't do it this time."

Some photofinishers, seeing the handwriting on the wall, have looked for other ways to boost sales. Fotomat tried selling other products such as videotapes, with disastrous results. Fox has stuck with photofinishing and pushed service instead, promising prints within 24 hours. Fox President Carl Newton III—grandson of the company founder, who was a friend of George Eastman—has further hedged his bet by spending nearly $1 million to open four minilabs in New Mexico and Texas. If they fly, he will open several more next spring. But Newton is reluctant to regard his array of kiosks as obsolete. "Our customers are used to them," he insists, "and they appreciate our one-day service."

One day or one hour, the truth is, photofinishing is a slow-growth, low-profit business and the introduction of minilabs makes it more expensive to compete. The only big beneficiary of Kodak's new camera and minilabs may well be Kodak. Several Japanese companies make the developer, but $10.3 billion (sales) Kodak sells the camera, the film and the developing supplies—and the $20,000 automatic printers used in minilabs. ■

If the automotive side of Genuine Parts' business is recession-immune, industrial parts should be too, right? Wrong.

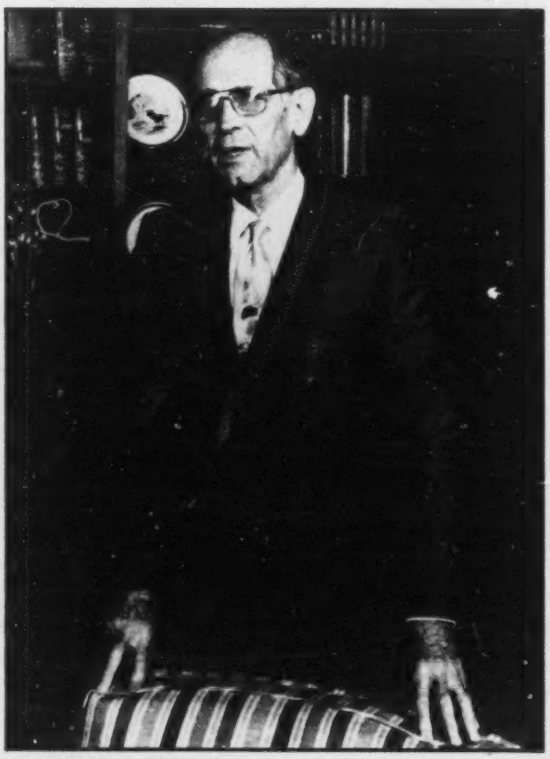
A nasty little shock

By John A. Byrne

"I'VE GOT only one rule," says Wilton Looney, CEO of Atlanta-based $2 billion (sales) Genuine Parts Co. "Just don't surprise me. I don't like surprises, even if they're good. They only mean you don't know what's going on."

Unfortunately for Looney, a tall, lean 63-year-old who wears flashy, gold, company cuff links studded with diamonds, the year so far has been exactly what he doesn't like. For the first time since Genuine diversified into the industrial parts business in 1976, that division has taken a dive in sales and profits.

Surprise? Most people would expect any industrial company to be down in a recession. Not Looney. He thought his industrial parts business was immune to recession, just as his auto replacement parts operation has been throughout most of its 55-year history. His theory was that industrial concerns would buy replacement parts in down times rather than new machinery, just as motorists defer buying new cars in favor of fixing up the ones they already have. Looney even acquired a Michigan-based industrial parts distributor in 1979, hoping to further build the division. "We were lucky enough to buy in Detroit just when things slowed down," he says with a rueful laugh.



Genuine Parts CEO Wilton Looney
"What we try to sell is one thing—service."

What Looney didn't foresee was the depth of this recession. "We studied [the industrial parts] business from one end to the other, and it never had a downturn in 30 years," he says. "But it's tough right now with so many plants and factories either closed, partially closed or running at half speed."

Result: Industrial parts, which accounted for 22% of sales in 1981, has halved the company's normal growth in earnings to 6% in the first six months from GP's customary 12%-to-15% rise. Looney doesn't expect things like that. After all, GP's five-year average return on equity of 21% ranks it among the top four most profitable concerns in the overall auto parts business. Its ROE last year was more than triple that of the two other publicly owned auto parts distributors, Republic Automotive Parts and Mid-America Industries.

The reason for this sparkling record: Looney generally gets few surprises in his auto parts business, which continues to drive the company forward in good times and bad. Genuine distributes nearly 100,000 different gizmos for cars and trucks through—and this is the best part—72 distribution centers affiliated with the National Auto Parts Association, a marketing group first assembled in 1925 by parts distributors all over the country. About 85% of GP's auto

parts output carries the NAPA brand name. The distribution centers sell the parts to 5,200 NAPA jobbers who, in turn, sell to your local auto mechanic. GP itself owns 55 of the 72 distribution centers and 350 of the jobbing stores.

So, although it has only 5% of the overall auto replacement market, it has some 85% of NAPA sales. Genuine got into this dominant position by growing alongside the NAPA network. GP founder Carlyle Fraser (who hired Looney in 1938 at the age of 19 for $15 a week) was instrumental in organizing the association in the 1920s. Now the company expects each NAPA jobber to buy the majority of his inventory from Genuine—most buy up to 85% or 90%. If a jobber falls below that minimum, GP might think about opening another NAPA account close by. Jobbers who support the system get exclusive rights to NAPA products, little, if any, NAPA competition, and lots of service. "What we try to sell is just one thing, and that's service," says Looney, between sips of coffee from a NAPA plastic cup. "From the very beginning, we said we will offer our customer everything he needs to be in the parts business, and that's what we do."

For example, the company guarantees overnight delivery to virtually every customer; that means a jobber can save money by keeping his inventory low. GP agrees to take back obsolescent stock at no cost except freight. It may find a building for a new jobber, furnish a lease for him or even keep his books (1,100 stores take advantage of this) for a fee of 1% to 1.5% on sales.

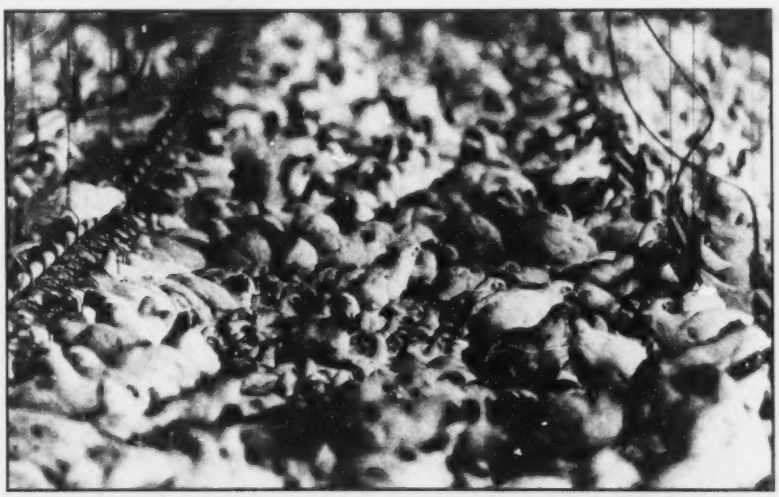
With the healthy business he has in auto parts, why did Looney want to diversify? In the late Sixties and early Seventies, he points out, the FTC was investigating GP's market share in auto parts. "Fortunately, they never saw fit to make any charges," he says. But to protect itself, the company decided to pursue diversification. Besides acquiring the industrial parts business in 1976, it picked up an office supplies firm in 1975 that today has more than $150 million in sales and better than a 20% return on investment. Overall, about 35% of sales are in nonautomotive operations, compared with only 10% a decade ago.

All the new businesses, however, have one thing in common: They distribute, rather than manufacture. "We get nervous with anything that goes up and down," says Looney, "and generally when you get into the original equipment end, it's cyclical. I'm a little bit too nervous for that type of thing." Too many surprises. ■

Thanks to smart, aggressive poultry processors, people are eating more chicken now than ever before. That trend has beef and pork producers worried.

Sleepless nights in Iowa

Wall-to-wall poultry in one of Holly Farms' North Carolina chicken houses
Plenty of vitamins and protein in the computer-formulated feed mix.

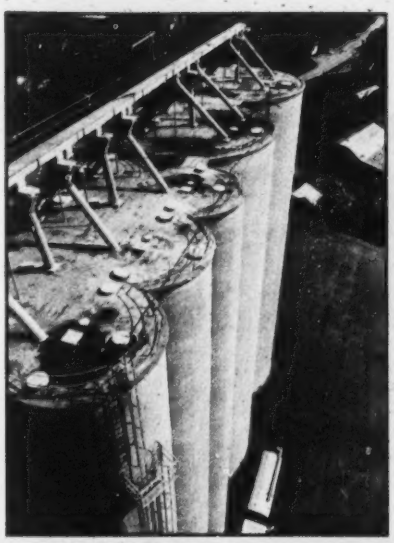


By Jeff Blyskal

THIS IS USUALLY the stuff ranchers chew the fat over: Last year each American consumed 77 pounds of beef, 64 pounds of pork and 52 pounds of chicken. Investors and businessmen would do well to study these numbers, too. Over the past decade they have changed significantly. Since 1970 per capita consumption of beef is down 8%, while pork is level. Then there's chicken, *up* an impressive 30%.

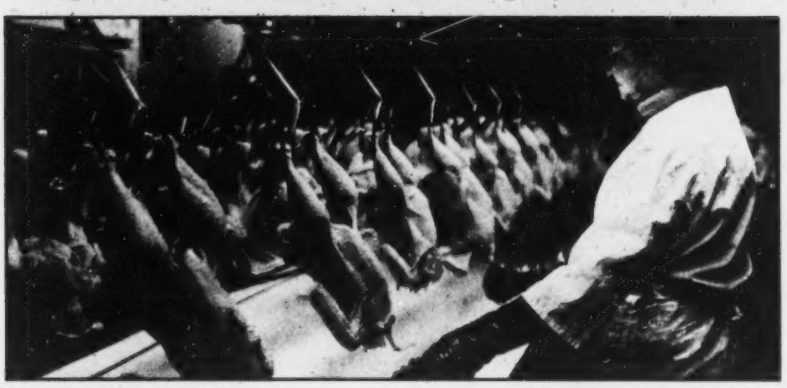
Why? The nation's poultry processors have slowly and quietly become sophisticated marketers. What's more, with present economies in place, the $12 billion-a-year poultry industry should make further gains over the next decade that would move per capita chicken consumption beyond that of pork, and could even threaten beef's once-solid number one position. This is making for more than a few sleepless nights on cattle and hog farms in Texas and Iowa.

There are two forces behind chicken's success—nutrition and price. "Our product is high in protein and low in fat," says John Phillips, president of ConAgra's poultry business, which last year killed some 237 million birds. A hundred grams of cooked beef, for example, contains 387 calories, 23% protein and 32% fat, according to the USDA. Pork has about the same breakdown. An equivalent amount of chicken (including the fatty skin) contains only 232 calories, 26% protein and 13.5% fat. "When you look at studies that say the incidence of colon cancer is greater for people who eat red meat," says Maryland-



Loading chicken feed

Inoculating baby chicks



Inspecting plucked birds

based processor Frank Perdue, "people get concerned."

Meanwhile, look at what has happened to prices. Since 1955 the retail price of pork has more than doubled and beef prices have more than tripled, but chicken prices are up only 31%. That means the poultry industry is a virtual textbook study of how efficient management and creative promotion can increase profits and serve consumers better.

"Vertical integration has been the primary factor in achieving the efficiencies we have," says Harold Chitwood, head of the $400 million-a-year poultry division of Atlanta's Gold Kist farmers' cooperative. Poultry processors like Gold Kist and other industry giants *(see chart, p. 179)* now control almost every phase of the business, from hatching the biddies—baby chicks—that contract farmers raise, to milling and mixing their own feed. They also slaughter and cut up the full-grown broilers, package and deliver chicken parts, cutlets and whole birds to supermarkets, and process deboned meat to make chicken hot dogs, bologna, salami, patties or Chicken McNuggets for McDonald's. "This business is made up of thousands of hundredths-of-a-cent per pound, and if you can gain a couple hundredths of a cent by improving one step of the operation, you have an advantage," says Bill Rusch of the Federal Co.'s $668 million Holly Farms division.

Breeding better chickens has generated tremendous gains, too. "In the Fifties, it took 16 weeks to produce a 3-pound chicken," says Perdue. "Now we get a 4-pound bird in just 7½ weeks." Adds Don Tyson, chief executive of Arkansas-based Tyson Foods, "Some of our experimental work has produced 6-pound chickens in 6 weeks." Unfortunately, that hefty fowl is not yet cost effective.

Broilers today also require less feed. It now takes 2 pounds of the stuff to produce 1 pound of meat, half the conversion ratio of the early Fifties. How come? With the addition of vitamins A and D, for example, broilers don't burn off weight running around in the sunshine—they can stay in the coop. In addition, young chicks that need high protein meal and older ones that require more calories get tailor-made feed. Tyson chickens are fed four different computer-formulated feed mixes over their eight-week lives for optimum growth.

The processors grew rapidly over the years through acquisition, usually during the low end of the three-to-four-year chicken cycle when overproduction pushes prices down and intensifies competition. Twelve of Tyson's 14 processing plants, for example, were acquired from troubled smaller firms. On the present downside of the cycle, Gold Kist has bought Swift's 630,000-head-per-week Douglas, Ga. facility. ConAgra and Imperial Foods Ltd., meanwhile, have formed a joint venture, making the combination the largest producer in the country. Consolidation of the business put additional economies of scale into slaughterhouse operations.

That means much of the 22-minute processing operation—killing, defeathering, eviscerating, debeaking—has been automated, reducing the labor cost of the job. Most of the cutting of the chicken into parts, which used to be done at the supermarket, now takes place at the plant. That allows for more efficient distribution and reduces the waste of unwanted parts, since demand sometimes differs from region to region and even neighborhood to neighborhood. New York, for example, is a big breast market, while the South prefers legs. Beyond that, cutting chicken into parts shifts profits to the processors: Whole chicken costs about 59 cents a pound, legs go for 89 cents, breasts $1.29 and deboned cutlets $2 and up.

In the late Sixties, chicken—once simply a commodity to consumers—became a brand item. California's Foster Farms was one of the first to put its name on the generic model and begin heavy advertising. Then Frank Perdue tried it on the East Coast and now spends "seven figures" annually on highly productive television and newspaper ads to separate his "oven stuffers" from all the rest. "Frank gets a lot more money for his chickens by doing that," says Tyson.

These factors have combined to put the screws on beef, a rivalry, of course, as old as man's appetite. "But we've faced more intense competition in the last several years," explains Tom McDermott of the National Live Stock & Meat Board. "The poultry people have really gotten their act together." Consequently, the NLMB

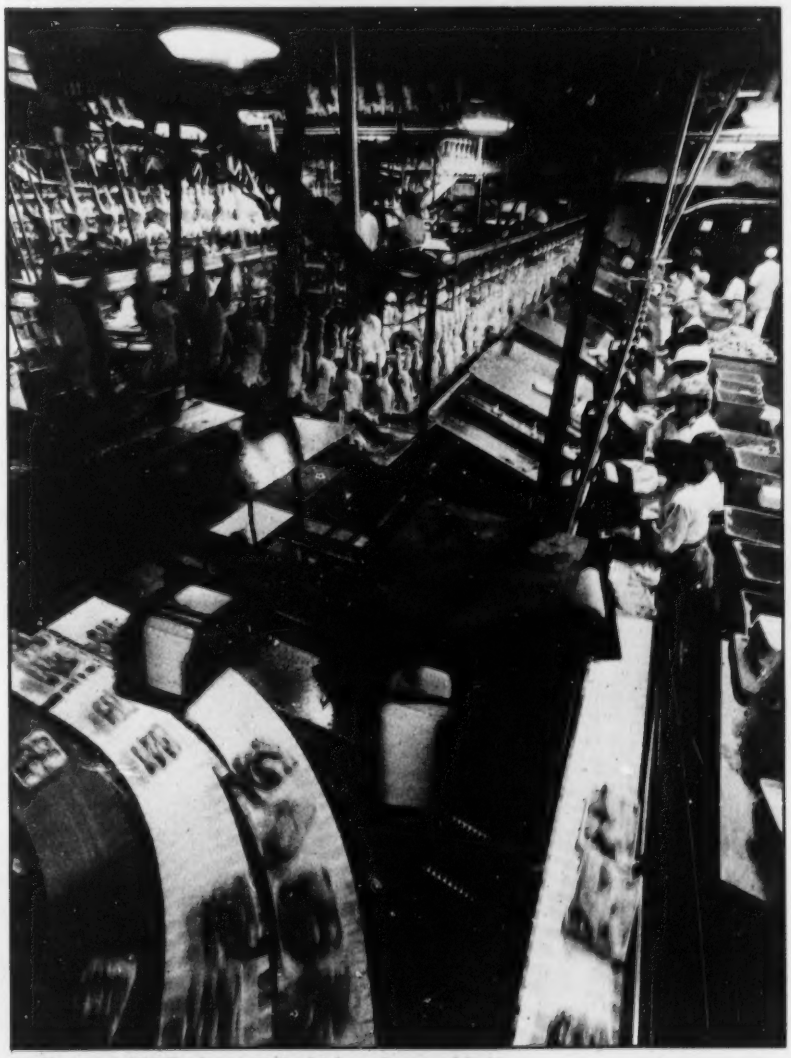
Rulers of the roost

After all the merging and acquiring that has gone on, these are, at the moment, the ten largest chicken producers in the U.S. ConAgra's joint venture with Imperial Foods moves the combination into first place.

Company	1981 production (million pounds, live weight)	Birds slaughtered‡ (million)
ConAgra/C-P Ltd* (NYSE)	1,700	452
Holly Farms (subs. Federal Co.) (NYSE)	1,300	347
Gold Kist (cooperative)	1,100	293
Perdue Farms (private)	850	227
Lane Processing† (private)	700	187
Tyson Foods (o-t-c)	600	160
Valmac Industries† (Amex)	575	153
Central Soya (NYSE)	500	133
Foster Farms (private)	490	131
Pilgrim Industries (private)	480	128

*C-P Ltd. is joint venture with Imperial Foods Ltd. †The Lane family has an 80% controlling interest in Valmac Industries. ‡Estimate.

Source: Broiler Industry Magazine



Holly Farms' Wilkesboro, N.C. chicken disassembly line
From here, breasts north to New York, legs south to Atlanta.

has boosted beef promotion expenditures 700% this year, to $7 million, and will likely up that to $12 million next year. Their message: that beef is worth the higher price. "Folks used to say, 'Beef is a staple. We don't need to promote it,' " says McDermott. "You don't hear much of that talk today. We can't take the market for granted anymore."

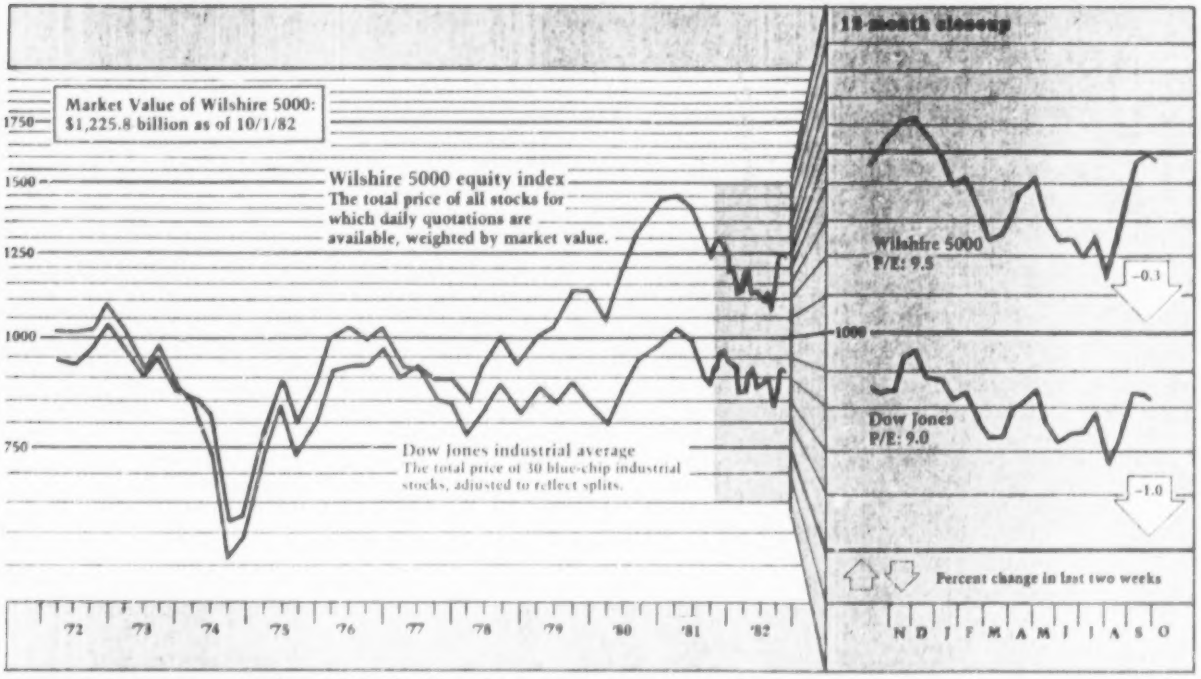
There are those who think poultry has actually plateaued. "It will equal or surpass pork by 1990," says Ernest Charron, Chase Manhattan's in-house consultant for agricultural lending. "But per capita chicken consumption will only grow four or five more pounds." Harvard professor and agricultural economist Ray Goldberg agrees. "Consumers can only eat so much chicken per week."

Of course, chicken people, like Holly Farms President Francis Garvin, see things differently: "Our consumer studies show households that buy chicken—50% to 60% of the country—buy it only twice a month. There's room for improvement." What's more, even if scientists develop new breeds of lower-fat, higher-efficiency cattle and hogs, chickens still have a biological edge: "When you breed poultry, you're dealing with a much faster generation," explains Wentworth Hubbard of Merck & Co.'s Hubbard Farms poultry breeding subsidiary. "And you're working with masses of animals, which increases the chances of developing a faster-growing chicken. Just on a purely economic basis, it's too expensive to deal with the same number of cattle."

Poultry breeders, in fact, soon will not have to wait even the few weeks it now takes to discover a chicken's growth rate. Some of Hubbard's researchers are learning to "read" chicken blood serum for fast growth traits, which should speed up the generations considerably. It's part of the reason that Hubbard expects poultry consumption to match beef consumption around 1990.

The chicken industry's greatest asset, however, may be an ability to convert feed into protein. It takes four times more grain to make a pound of choice beef than chicken. The competition could change—and there's always the chance poultry processors will begin resting on their impressive laurels. There are other ways to squeeze even more nutrition from the world's resources. A switch to soy-based protein, for example, would require a considerable change in the U.S. appetite, but that's not an impossiblity. Remember all those steaks folks used to eat back in 1970? ■

The Forbes/Wilshire 5000 Review


Market Value of Wilshire 5000: $1,225.8 billion as of 10/1/82
1750
1500
1250
1000
750
Wilshire 5000 equity index
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
'72 '73 '74 '75 '76 '77 '78 '79 '80 '81 '82
12-month closeup
Wilshire 5000 P/E: 9.5
-0.1
1000
Dow Jones P/E: 9.0
-1.0
Percent change in last two weeks
N D J F M A M J J A S O

Strength in the secondaries. While the blue chips were struggling, NASDAQ issues managed to make some advances. As in previous rallies, it took NASDAQ stocks a bit of time to follow in the tracks of larger companies. During the last few weeks, however, the secondary stocks have developed a momentum of their own.

For the recent two-week period NASDAQ issues advanced 1.1%. Over the past month, meanwhile, they are ahead 3.7% vs. negative figures for all other major indexes. The allure of these is their low prices and small floats. Companies like Carhart Photo, Sloan Technology and Video Station have made spectacular percentage advances in recent trading sessions.

While this was happening, however, blue chips were experiencing some consolidation and profit-taking. It is also likely that with the end of the September quarter, money managers are under less pressure to dress up their portfolios with rally favorites. With continuing signs of economic weakness, the Dow suffered a minor setback over the last two weeks. The Amex experienced an even sharper two-week drop, but at least some of this stems from weakness in widely held Dome Petroleum. The broad-based indexes such as the Wilshire 5000 and Forbes 500 were also off by a few tenths of a percentage point.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-0.2	-0.2	-1.9	-0.4	-0.7	3.7
in last 52 weeks	0.4	N.A.	5.5	1.7	-8.0	2.3

Stock performance based on five key investor yardsticks

Percent change	Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	-0.1	2.5	2.0	0.8	2.7	1.6	-0.3	2.3	1.7	1.9
in last 52 weeks	8.2	14.7	-3.3	19.6	15.3	16.6	9.8	14.1	4.6	4.9

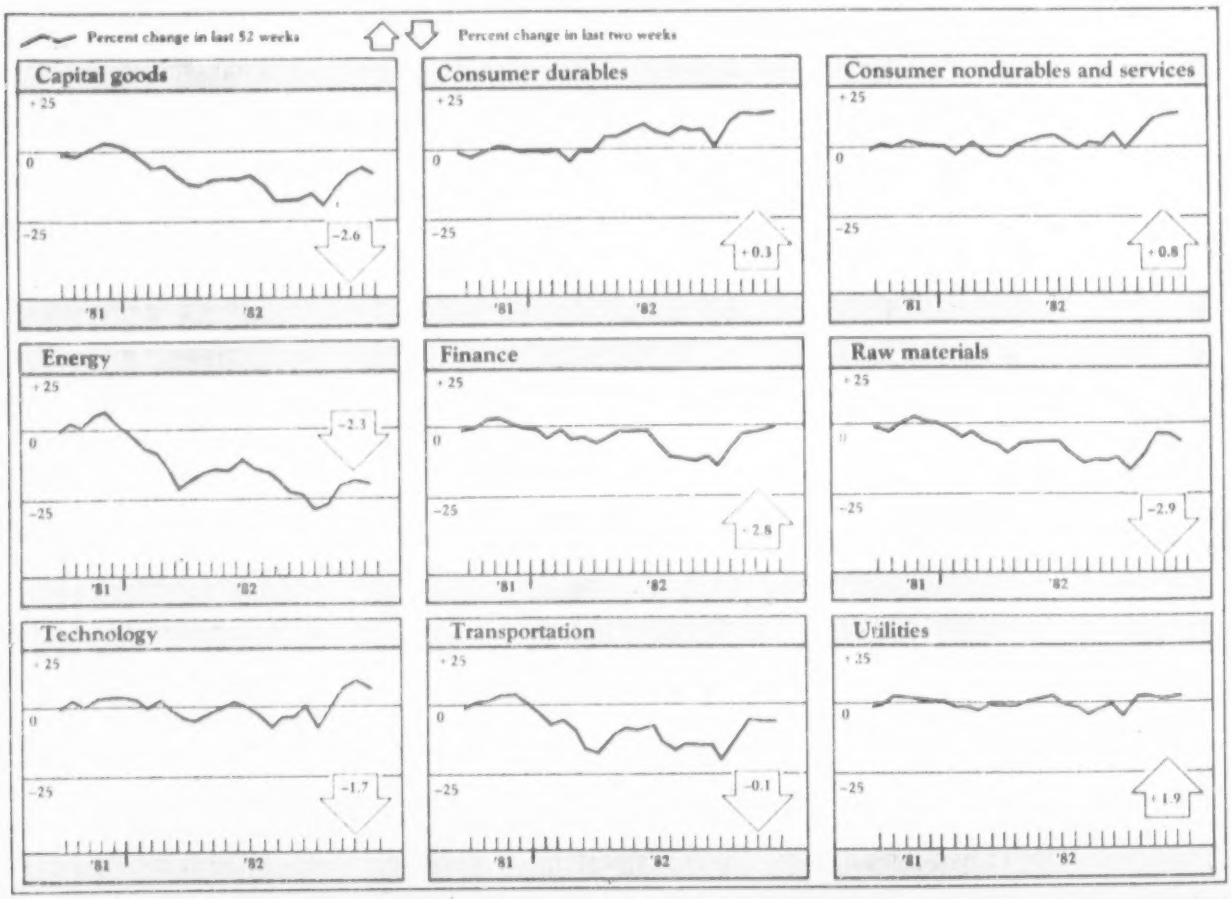
NA: Not available.
[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 10/1/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Betting against a recovery. Sellers pushed down prices of manufacturing, resource, technology and transportation companies—all the kinds of basic businesses that could help the economy out of a rut. But investors were stocking up on utilities—defensive issues that generally hold up well in periods of economic weakness.

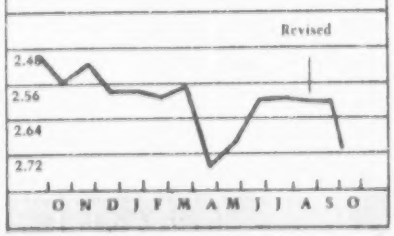
A second reason for investing in utilities is that, with their high yields, these stocks become even more attractive if interest rates begin to climb again. Shares in companies in the finance sector were also in demand. One possible reason: Higher trading volume usually means larger profits for the brokerage industry.



What The Analysts Think

Reality sinks in. In the last two weeks the buy/sell consensus shifted toward the sell side. Despite splashy news from Wall Street, institutional analysts are becoming more pessimistic. Note that utilities and finance—the two strongest sectors in terms of stock performance—also advanced in rank and are now close to leading here as well.

The consensus of opinion



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Technology	2.41	1	1
2	Utilities	2.55	3	3
3	Capital goods	2.61	2	2
4	Finance	2.69	6	6
5	Consumer non-durables	2.79	7	7
6	Energy	2.80	4	4
7	Raw materials	2.81	8	8
8	Transportation	2.84	5	5
9	Consumer durables	3.02	9	9

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 10/1/82. Prepared by Wilshire Associates, Santa Monica, Calif.

Statistical Spotlight

Some bonds don't pay interest, and some preferred stocks are behind on dividends. That means risks are high—but so is the likelihood of potential rewards.

For gamblers only

By Paul Bornstein

BONDS THAT PAY no interest and cumulative preferred stocks that are in arrears on dividends are not investments for widows and orphans. For gamblers, however, they often present intriguing possibilities. After all, the troubled companies that can't keep their payments current could bounce back. If that does happen, the potential for repayment of past interest or dividends can be very mouth-watering.

The table below lists 36 bonds rated C and under by S&P's Creditwatch. All pay no interest, and the overwhelming majority are also in arrears in the repayment of principal. Bankruptcy is their common link, and reorganization is the key to their future. But the distinct possibility of big re-

Bonds without interest

The companies that issued these bonds are in various stages of bankruptcy. Firms trading at or near their highs represent those close to some form of reorganization. New issues added may or may not emerge solvent.

Company	Coupon %	Maturity	Recent price	Price range 1981–82		Date ceased payment	Date issued	Issue outstanding (million)
Boston & Maine Railroad (Bos & Me)	6%	7/1/1970	$1,480	$1,510	$1,150	2/1/1970	1965	$ 9.95
Boston & Maine Railroad (Bos & Me)	4½	7/1/1970	1,600	1,670	970	5/1/1958	1940	18.70
Braniff Airways (Braniff Intl)	5¾	12/1/1986	90	550	50	6/1/1982	1966	25.00
Braniff Airways (Braniff Intl)	11⅛	1/5/1987	740	893	560	7/5/1982	1971	8.76
Braniff Airways (Braniff Intl)	10	7/1/1986	460	730	289	7/1/1982	1976	50.00
Braniff Airways (Braniff Intl)	9⅛	1/1/1997	480	599	250	7/1/1982	1976	49.90
California Life[2]	11	3/15/1998	380	540	150	3/15/1982	1978	20.00
Chicago Mil St P & Pac Railroad	4	1/1/1994	860	865	660	1/1/1978	1945	11.60
Chicago Mil St P & Pac Railroad	4½	1/1/2019	890	890	505	4/1/1976	1945	24.70
Chicago Mil St P & Pac Railroad	5	1/1/2055	700	700	380	3/1/1970	1955	55.60
Chicago Rock Is & Pac	2⅞	1/1/1980	910	910	680	7/1/1975	1950	32.70
Chicago Rock Is & Pac	5½	2/1/1983	980	980	560	8/1/1975	1958	14.80
Chicago Rock Is & Pac	4½	3/1/1995	670	800	500	3/1/1968	1955	50.30
Chicago Terre Haute & SE (Chi Mil St P)	2¼	1/1/1994	750	750	430	1/1/1978	1945	7.17
Chicago Terre Haute & SE (Chi Mil St P)	2¼	1/1 1994	730	730	430	1/1/ 1978	1945	4.74
Erie Railroad (Erie Lackawanna Ry/Dereco)	3⅛	1/1/1990	1,280	1,280	735	7/1/1972	1945	32.80
Erie Railroad (Erie Lackawanna Ry/Dereco)	3⅛	1/1/2000	1,280	1,280	735	7/1/1972	1945	38.70
Erie Railroad[3] (Erie Lackawanna Ry/Dereco)	4½	1/1/2015	1,480	1,480	420	4/1/1960	1941	1.70
Erie Railroad (Erie Lackawanna Ry/Dereco)	5	1/1/2020	660	700	200	4/1/1959	1955	26.60
FSC Corp	15¾	8/1/1995	135	950	100	3/1/1982	1980	7.00
Gamble-Skogmo (Wickes Cos)	10	1/1/1989	300	820	270	7/1/1982	1979	39.80
Gambles Credit (Wickes Cos)	9⅜	7/15/1986	470	800	390	7/15/1982	1976	60.00
Itel	9⅝	4/15/1998	260	335	100	4/15/1980	1978	100.00
Itel	10½	12/1/1998	580	580	240	6/1/1980	1978	75.00
Johns-Manville (Manville Corp)	7.85	1/1/2004	400	600	398	7/1/1982	1973	75.00
Johns-Manville (Manville Corp)	9.70	5/1/1985	450	889	450	5/1/1982	1979	100.00
Mego International	12⅞	2/1/1994	140	635	40	2/1/1982	1979	12.70
Missouri-Kansas-Tex RR (Katy Inds)	5½	1/1/2033	235	350	159	4/1/1959	1958	51.70
Morris & Essex RR (Erie Lackawanna Ry/Dereco)	3½	12/1/2000	1,280	1,280	320	12/1/1972	1913	32.60
Southern Indiana Railway (Chi Mil St P)	2¼	1/1/1994	750	750	430	1/1/1978	1945	5.10
United NJ RR & Canal[4]	4½	9/1/1979	1,150	1,150	650	9/1/1970	1951	6.02
White Motor	7¼	3/1/1993	270	480	240	3/1/1981	1968	8.69
White Motor	11	12/1/1999	110	390	50	12/1/1980	1979	10.20
Wickes Corp (Wickes Cos)	7⅞	5/1/1998	365	640	270	5/1/1982	1973	47.70
Wickes Corp (Wickes Cos)	8⅞	7/1/1997	365	575	270	7/1/1982	1977	35.00
Wickes Corp (Wickes Cos)	10¼	7/15/2004	365	730	280	7/15/1982	1979	60.00

[1]Company refers to name of original issuer. If name has been changed or bond is controlled by a different company this information is shown in parenthesis. [2]Majority interest acquired by NPL Acquisition Corp. [3]Convertible into Norfolk Southern common. [4]Guaranteed by Penn Central Transportation.

Source: Standard & Poor's Creditwatch

Statistical Spotlight

wards is also apparent: Look at the Erie Railroad, for example, which filed plans for reorganization on June 26, 1972. Its 5% bonds now sell for $660 and carry a total of $663 in unpaid interest on current terms. Holders of this bond will not get cash but stock instead. Many investors don't expect bondholders to get 100 cents on the dollar—but even a fraction of that could bring about substantial profits.

The table below lists 14 companies with preferred stock trading in arrears. All these firms are losing money except for Manville Corp., which recently filed for bankruptcy because of asbestos litigation claims, and United National, a real estate company which has been paying a dividend since August 1980, but has not caught up on its arrears. United National stopped paying dividends in August 1974 when cash had to be used for bank debt instead of dividend payouts. In general, preferred dividends are paid only after bond obligations are met and before any payment to common stockholders. Once again, that can alter the potential for major gains.

Chrysler is an interesting example. Irwin Perry at Herzfeld & Stern points out that before the company can make any preferred dividend payment, it must pay off $1.2 billion in government guaranteed loans by 1990. The first payment on that debt is scheduled for June 1983. Since Chrysler has about $1 billion in cash now, Perry feels the company will meet the deadline. "And if it does, the preferred will move," he explains. Another thought: Chrysler's preferred sells for just 1⅛ more than its common. For investors who are enthusiastic about the automaker's prospects and who believe some Street estimates of earnings of $3 to $4 a share in 1983, it's probably a better buy.

Investing in troubled coupons, of course, requires specialized skills. Few of the firms on our list are as well known and closely followed as is Chrysler. Edward Altman, professor of finance at New York University's Graduate School of Business, suggests making a comparison between what the business is worth as a going concern and the value of the outstanding claims. This gives an idea of potential equity available—but getting the data for such calculations is difficult even for professional investors. After reorganization, profits can come in the form of cash, new debt or stock—or a combination of all three.

Winners in this big-stakes game may do very well indeed. Take Interstate Stores as an exceptional example. Prior to bankruptcy in May 1974 its 4% convertible bond sold for around $220. After reorganization in April 1978, Toys 'R' Us emerged. It earned $1.41 last year—and those 4% Interstate convertibles were converted into Toys 'R' Us common and are now worth $12,920, an incredible 5,773% gain.

Another success story is Morris & Essex Railroad, a part of the Delaware, Lackawanna & Western railroad system. It is almost out of reorganization and the line's 3½% bonds sell for $1,280, with each holder scheduled to get $1,361 in cash for the principal and accrued interest under current terms. In 1981 these same securities traded for as low as $320. However, not every troubled company pays off big. Some speculators realize little or nothing on their investments. Before you load up on the stocks and bonds in these tables, remember W.T. Grant and Arlan's Department Stores. ■

Preferreds with no payout

Except for troubled Manville Corp., none of these companies is in Chapter 11, but all are behind in preferred stock dividends. If their situation changes for the better, investors can enjoy hefty dividend catchups.

Exchange	Company/*business*	Annual preferred dividend	Recent price	52-week —price range—	Last dividend payment	Amount in arrears	Latest 12-month net income (thousand)
a	**Altec**[1] *communications equipment*	$0.80	5	5⅝– 4½	6/1/72	$ 9.00	$ –488
n	**Chrysler** *automotive*	2.75	9⅞	10⅞– 3⅝	9/15/79	8.25	–19,700
n	**Hesston**[1] *agricultural equipment*	1.60	8⅝	11⅞– 8¼	6/1/82	0.40	–7,520
n	**Intl Harvester**[1] *agricultural equipment*	5.76	8⅛	22½– 7⅝	10/15/81	4.32	–715,302
n	**Lehigh Valley Inds**[1] *multicompany*	1.50	9⅞	15⅝– 9½	7/3/72	15.75	–12,680
n	**LLC** *finance*	1.25	4⅞	8¼– 4¼	4/1/74	10.63	–7,061
n	**Manville** *building materials*	5.40	13¼	36 –13⅛	7/1/82	1.35	6,922
n	**Orion Pictures**[1] *entertainment*	0.50	7	7¼– 2¼	11/1/80	0.88	– 8,019
a	**Richmond Tank Car**[1] *railroad equipment*	2.50	8½	23 – 7	7/1/82	0.63	– 3,002
a	**Seaport**[1] *auto parts distributor*	0.56	3	3½– 2¼	5/14/80	2.24	–61
a	**Susquehanna**[1] *building materials*	1.00	7½	7¼– 5¼	1/25/81	1.50	–96
a	**Unimax**[1] *electrical equipment*	0.60	6	6¼– 5⅝	10/1/72	6.00	– 6,520
a	**United National Corp**[1,2] *real estate*	0.70	7⅛	8⅞– 6¾	8/28/82	4.03	3,211
n	**Western Air Lines**[1] *airline*	2.00	10⅝	20¼– 8⅝	12/31/81	1.50	– 67,100

a: American Stock Exchange. n: New York Stock Exchange. [1]Convertible stock. [2]Company currently making payments on preferred dividends.